

Retiring Allowance

A retiring allowance is an amount received on or after leaving employment in recognition of long service. It can include payment for unused sick leave and amounts received for loss of employment. The eligible portion of a retiring allowance can be transferred directly or indirectly to an RPP or RRSP.

The amount eligible for transfer is \$2,000 for each year or part-year of service before 1996 in which the member was employed. An additional amount of \$1,500 is eligible for transfer for each year or part-year of service before 1989 providing there is no entitlement to any benefits earned under a pension plan or DPSP from contributions the employer made for each such year.

Only the eligible amount of the retiring allowance can be transferred to an RPP or RRSP as a rollover.

To be deductible, the eligible amount must be transferred directly or indirectly to an RPP or RRSP in the year received or within 60 days after year-end.

- A direct transfer occurs when the employer sends the money directly to the financial institution. Generally tax is not withheld at source if the eligible portion is directly transferred to an RPP or RRSP.
- An indirect transfer occurs when the money is given to the individual, net of withholding taxes, and then the individual deposits it into their RPP or RRSP. This can be a lengthy process, and if possible, a direct transfer is the easiest method for all involved.

RRSP

- The RRSP issuer issues a contribution receipt. The eligible amount cannot be transferred to a Spousal RRSP.
- The eligible amount of the retiring allowance does not affect contribution room.
- The ineligible amount is considered a normal contribution and the member should ensure they have sufficient contribution room for the ineligible amount.

RPP

- A retiring allowance can be an additional contribution to the pension plan, provided the plan allows for the member voluntary contributions.
 - The eligible amount is not included when determining the Pension Adjustment.
 - The ineligible amount is included when determining the Pension Adjustment.

Tax Reporting

The employer reports the portion eligible for transfer to an RRSP in box 26 of a T4A and the portion that is not eligible for transfer is reported in box 27. The amount of the retiring allowance included in income will be offset by the relevant portion of the RRSP contribution.

The full amount is reported as income in the year received on the individuals' tax return and a deduction is claimed for the amount transferred. The individual also reports the amount of the transfer on Schedule 7, RRSP Unused Contributions, Transfer, and HBP and LLP Activities.